

Message Text

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ACTION EUR-12

INFO OCT-01 NEA-10 ISO-00 EA-07 IO-11 OPIC-03 AGR-05

CEA-01 CIAE-00 COME-00 DODE-00 EB-07 FRB-03 H-02

INR-07 INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05

CIEP-01 SS-15 STR-04 TAR-01 TRSE-00 USIA-06 PRS-01

SP-02 OMB-01 FEA-01 XMB-02 /126 W

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R 131737Z JAN 76

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TO SECSTATE WASHDC 283

INFO ALL EC CAPITALS 1526

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PASS AGRICULTURE

E.O. 11652: N/A

TAGS: EAGR, EEC, PFOR

SUBJECT: EC-EGYPT COMMODITY AGREEMENT

REF: 75 EC BRUSSELS 11525, 75 EC BRUSSELS 10007, 75 EC A-319,
75 EC BRUSSELS 07137

1. BEGIN SUMMARY: THE EC AND EGYPT HAVE NOW NEGOTIATED A COMMODITY AGREEMENT WHICH IS SUBJECT TO APPROVAL BY BOTH THE EC COUNCIL AND THE EGYPTIAN GOVERNMENT. FOR THE MOST PART, THE QUANTITIES AND PRICES PROVIDED FOR IN THE AGREEMENT ARE THE SAME AS PREVIOUSLY REPORTED. HOWEVER, PROVISIONS FOR THE SUPPLY OF 10,000 TONS OF NFDM (NON FAT DRY MILK POWDER) UNDER FOOD AID PROGRAMS AND 10,000 TONS OF BUTTER AND BUTTER OIL HAVE BEEN DROPPED FROM THE AGREEMENT. IMPORTATION OF ALL THE COMMODITIES COVERED BY THE AGREEMENT IS TO BE COMPLETED WITHIN ONE YEAR BUT PROVISION IS MADE FOR THE LIMITED OFFICIAL USE

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EXTENSION OF THE ARRANGEMENTS FOR WHEAT AND SUGAR. END SUMMARY.

2. WE HAVE OBTAINED A COPY OF THE DRAFT AGREEMENT NEGOTIATED BY EGYPTIAN

AND COMMISSION REPRESENTATIVES. ANNEXED TO THIS AGREEMENT ARE NUMEROUS LETTERS OF EXCHANGE WHICH PROVIDE ADDITIONAL DETAILS AS TO THE WORKINGS OF THE AGREEMENT AND ARE TO BE CONSIDERED AN INTEGRAL PART OF THE AGREEMENT. COPIES OF THE AGREEMENT (INCLUDING THE LETTERS OF EXCHANGE) ARE BEING SENT TO JOHN MCCARTHY EUR/RPE, DEPARTMENT OF STATE, AND RICHARD SCHROETER, FAS, DEPARTMENT OF AGRICULTURE. THE AGREEMENT MUST STILL BE APPROVED BY THE COUNCIL OF MINISTERS AND THE EGYPTIAN GOVERNMENT AND IT IS POSSIBLE THAT THEY MAY MODIFY SOME OF THE PROVISIONS. HOWEVER, NO MAJOR MODIFICATIONS ARE ANTICIPATED. THE AGREEMENT WILL PROBABLY BE CONSIDERED AT THE JANUARY 19-20 MEETING OF THE COUNCIL OF FOREIGN MINISTERS. THE AGREEMENT IS SUPPOSED TO ENTER INTO FORCE ON THE FIRST DAY OF THE MONTH FOLLOWING THE DATE ON WHICH APPROVAL IS OBTAINED; THUS, THE AGREEMENT WOULD ENTER INTO FORCE ON FEB. 1, 1976 AT THE EARLIEST.

3. THE AGREEMENT CONSISTS OF AN ENGAGEMENT TO SUPPLY, ON THE PART OF THE EC, AND TO IMPORT, ON THE PART OF THE EGYPTIANS, CERTAIN QUANTITIES OF AGRICULTURAL COMMODITIES WITHIN A SPECIFIED PRICE RANGE ON THE EC SIDE, IT IS SPECIFIED THAT "PRIVATE OPERATORS" WILL HANDLE THE TRADE. ON THE EGYPTIAN SIDE, IT IS SPECIFIED THAT THERE WILL BE NO DISCRIMINATION AMONG THE VARIOUS EC TRADERS AND SHIPPERS. A JOINT COMMITTEE CONSISTING OF REPRESENTATIVES OF THE COMMISSION AND OF THE EGYPTIAN GOVERNMENT IS TO BE SET UP TO INSURE THAT THE PROVISIONS OF THE AGREEMENT ARE RESPECTED. IT IS TO MEET REGULARLY -- AT LEAST ONCE EVERY FOUR MONTHS.

4. THE QUANTITIES AND THE PRICE RANGES (SHOWN BELOW) FOR THE DIFFERENT COMMODITIES ARE THE SAME AS THOSE REPORTED IN REFS 3 AND 4. PRICES ARE ON AN FOB BASIS, EC PORTS. WITH THE EXCEPTION OF SUGAR, THEY ARE GIVEN IN \$/M.T. ALONG WITH CORRESPONDING VALUES IN U.A./M.T. (AT 1.0 U.A. EQUALS US\$1.24). THE PRICE RANGES RELATE TO A CERTAIN QUALITY OF PRODUCT WHICH IS, IN SOME CASES, SPECIFIED IN CONSIDERABLE DETAIL. (SEE PARA. 8).

COMMODITY	QUANTITY(M.T.)	PRICE RANGE
1 MILLION	\$125 - 175/M.T. OR	
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(WHEAT EQUIVALENT) 96.60 TO 140.8 U.A./M.T.
OF WHICH AT LEAST
200,000 TONS OF FLOUR

SUGAR	75.000	320.5 TO 336.5 U.A./M.T.
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FROZEN AND CANNED	11,000 OF WHICH ABOUT	\$800-850/M.T. OR
BEEF	1,000 TONS CORNED BEEF	644 TO 684 U.A./M.T.

NFDM 10,000 \$630-650/M.T. OR
507 TO 523 U.A. /M.T.

CHEESE 3,000 \$1,000 TO 1,150/M.T. OR
805 TO 962 U.A./M.T.

MIXED ANIMAL FEEDS 5,000 NOT SPECIFIED

5. DELIVERIES OF ALL THE COMMODITIES WILL TAKE PLACE WITHIN A ONE-YEAR PERIOD. SHIPMENTS OF WHEAT AND WHEAT FLOUR ARE STILL SUPPOSED TO BE COMPLETED BY THE END OF THE CURRENT MARKETING YEAR (JULY 31, 1976). IN FACT, THE AGREEMENT RETAINS THE TIME TABLE FIXED IN EARLIER VERSIONS OF THE AGREEMENT -- I.E., THE EC IS SUPPOSED TO STRIVE FOR THE DELIVERY (TO EC PORTS) OF TWO-THIRDS OF THE TOTAL AMOUNT BY MARCH 1, 1976 WHILE EGYPT IS TO ENSURE THAT HALF OF THE TOTAL IS LOADED BY THAT DATE. WITH RESPECT TO THE QUANTITIES OF WHEAT AND WHEAT FLOUR TO BE SHIPPED IN THE CURRENT MARKETING YEAR, THERE IS AN EXCHANGE OF LETTERS INDICATING THAT AMOUNTS ALREADY SHIPPED SINCE AUGUST 1, 1975 WILL BE COUNTED TOWARDS THE FULFILLMENT OF THE AGREEMENT. IT IS ESTIMATED THAT 288,000 TONS OF EC WHEAT (INCLUDING THE WHEAT EQUIVALENT OF 124,000 TONS OF FLOUR) WERE SHIPPED TO EGYPT BETWEEN AUGUST 1 AND OCTOBER 31, 1975. SHIPMENTS OF THE OTHER COMMODITIES ARE TO BE EFFECTED WITHIN ONE YEAR AFTER THE AGREEMENT GOES INTO EFFECT. HOWEVER, THERE IS AN EXCHANGE OF LETTERS IN THE ANNEX WHICH COMMITS THE EGYPTIAN GOVERNMENT TO TRY TO COMPLETE THEIR PURCHASES OF SUGAR BEFORE JULY 1, 1976. THIS IS BECAUSE THE PRICE ARRANGEMENTS WITH REGARD TO SUGAR ARE BASED ON EC TARGET AND INTERVENTION PRICES. THESE PRICES WILL PRESUMABLY BE RAISED AT THE START OF THE 1976/77 MARKETING YEAR. ALSO IN THE ANNEX IS AN EXCHANGE OF LETTERS BY WHICH THE COMMISSION AND EGYPT DECLARE THEIR INTENTIONS TO RENEW THE ARRANGEMENTS FOR WHEAT AND SUGAR FOR THE 1976/77 AND 77/78 MARKETING YEARS, ACCORDING TO CONDITIONS JOINTLY DETERMINED.

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KETING YEARS, ACCORDING TO CONDITIONS JOINTLY DETERMINED.

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6. THE FAILURE TO CONCLUDE A 3- YEAR AGREEMENT ON SUGAR STEMS FROM THE COUNCIL'S INSISTENCE ON MAKING SUCH A LONG-TERM ARRANGEMENT CONTINGENT UPON A REVIEW OF THE COMMUNITY SUPPLY SITUATION. ALSO, THE COUNCIL WANTED TO FIX THE QUANTITIES ANNUALLY AND RETAIN THE LINK TO EC INTERVENTION AND TARGET PRICES IN 1976/77 AND 1977/78. THIS ELEMENT OF "UNILATERAL" CONTROL WAS UNACCEPTABLE TO THE EGYPTIANS. THE ONE-YEAR AGREEMENT WITH A COMMITMENT TO RENEW AND RENEGOTIATE IS THE COMPROMISE SOLUTION OF THE COMMISSION.

7. NO REFERENCE IS MADE IN THE AGREEMENT (OR THE LETTERS) TO FOOD AID SHIPMENTS OF NFD (PROVISION FOR 10,000 TONS WAS INCLUDED IN THE INITIAL DRAFT). ACCORDING TO A SOURCE IN THE COMMISSION, THIS ITEM WAS DELETED AT THE INSISTENCE OF THE COUNCIL OF MINISTERS WHICH WAS OPPOSED TO ANY LINK BETWEEN FOOD AID AND COMMERCIAL SALES. IT DOES NOT, OF COURSE, PREVENT SEPARATE FOOD AID ARRANGEMENTS FROM BEING MADE OUTSIDE OF THE AGREEMENT. BUTTER AND BUTTER OIL WERE LIMITED OFFICIAL USE

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DROPPED FROM THE AGREEMENT (THE ORIGINAL DRAFT HAD INCLUDED 10,000 TONS) BECAUSE EC PRICES COMPARED VERY UNFAVORABLY WITH THOSE OF OTHER SUPPLIERS SUCH AS NEW ZEALAND.

8. SPECIFICATIONS AS TO THE QUALITY OR TYPE OF PRODUCT COVERED BY THE AGREEMENTS, WHICH ARE SPELLED OUT EITHER IN THE DRAFT AGREEMENT OR THE PROPOSED LETTERS, ARE AS FOLLOWS:

WHEAT AND FLOUR --- AVERAGE QUALITY EC WHEAT, MOISTURE CONTENT 16 PERCENT, MAXIMUM 5 PERCENT IMPURITIES, BROKEN GRAINS, GERMINATED SEEDS, ETC., SPECIFIC WEIGHT 75 KGS/ HECTOLITER. TYPE 550 FLOUR WITH AN ASH CONTENT OF 500 MILLIGRAMS PER 100 GRAMS OF FLOUR ,MOISTURE CONTENT OF 15.5 PERCENT.

NFDM --- FIRST QUALITY (AS DEFINED BY EC INTERVENTION AGENCIES) FOR HUMAN CONSUMPTION. THE CHARACTERISTICS ARE SPELLED OUT IN GREAT DETAIL IN THE LETTERS OF EXCHANGE.

BEEF--- FROM ANIMALS NOT ABOVE 3 YEARS OF AGE, IN THE FORM OF COMPENSATED QUARTERS." IT IS ALSO SPECIFIED THAT THE BEEF IS TO COME FROM EC INTERVENTION AGENCIES.

CHEESE --- OF ANY TYPE, BUT NOTABLY OF THOSE TYPES MAKING UP TRADITIONAL EC-EGYPT GRADE (EDAM, GOUDA, CHEDDAR, ETC.).

MIXED FEEDS --- MUST CONTAIN 50 PERCENT NFDM, 15 PERCENT LACTOSERUM POWDER, AND ABOUT 20 PERCENT ANIMAL OR VEGETABLE FATS OR OILS (CLAF FEEDS).

9. THE LETTER OF EXCHANGE PROVIDE THAT, WHEN THE WORLD PRICE FOR WHEAT (DEFINED AS AVERAGE US PRICES , FOB, OF HARD WINTER ORDINARY OR SOFT RED WINTER OVER A 15 DAY PERIOD) IS OUTSIDE THE AGREED PRICE RANGE, THE PRICE TO BE CHARGED FOR FLOUR PURCHASED FROM THE COMMUNITY IS TO BE EXAMINED BY THE JOINT COMMITTEE. THESE LETTERS ALSO PROVIDE FOR THE DETERMINATION OF THE PRICE OF CANNED BEEF BY THE JOINT COMMITTEE (AT ITS FIRST SESSION).

10. IN A DISCUSSION WITH A COMMISSION OFFICIAL IN DG- IV (AGRICULTURE), IT WAS SUGGESTED THAT SOME OF THE PRICES-- IN PARTICULAR,

THAT FOR NFDM --- 2343 SOMEWHAT HIGH IN COMPARISON WITH CURRENT LIMITED OFFICIAL USE

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WORLD MARKET PRICES. HE AGREED AND VENTURED THE OPINION THAT THE EGYPTIAN WILLINGNESS TO AGREE TO THESE PRICES RESULTED FROM (1) THEIR DESIRE FOR THE WHOLE PACKAGE OF COMMODITIES AND (2) A POLICY DECISION TO BUY AGRICULTURAL COMMODITIES FROM WESTERN EUROPE. GREENWALD

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Message Attributes

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Disposition Authority: morefirh
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